



# **RAND WEST CITY LOCAL MUNICIPALITY**

## **BORROWING POLICY 2019-2020**

Notwithstanding the review date herein, this policy shall remain effective until such time approved otherwise by council and may be reviewed on an earlier date if necessary.

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# 1. DEFINITIONS

In this Policy, unless the context otherwise indicates, a word or expression to which a meaning has been assigned in the Local Government: Municipal Finance Management Act, 2003 (Act No 56 of 2003), has the meaning so assigned, and:

**“Accounting Officer”** – means the Municipal Manager and vice versa;

**“Act”** – means the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003);

**“Chief Financial Officer”** – means an officer of the Municipality, designated by the Municipal Manager to be administratively in charge of the financial affairs of the municipality;

**“Council” or “Municipality”** – means the Municipal Council of Rand West City Local Municipality as referred to in Section 18 of the Municipal Structures Act;

**“Creditor”** – in relation to a municipality, means any person or service provider to whom money is owing by the Municipality;

**“Debt”** – means –

- (a) a monetary liability of obligation created by a financing agreement, note, debenture, bond, overdraft or the issuance of municipal securities; or
- (b) a contingent liability such as that created by guaranteeing a monetary liability or obligation of another.

**“Delegatee”** – means an official / person delegated to perform tasks on behalf of another person;

**“Financial Statement”** – means statements consisting of at least –

- (a) a balance sheet (statement of financial position);
- (b) an income statement (statement of financial performance);
- (c) a cash-flow statement;
- (d) any other statements that may be prescribed; and

## **2. ABBREVIATIONS**

RWCLM	Rand West City Local Municipality
AO	Accounting Officer
ASB	Accounting Standards Board
CFO	Chief Financial Officer
CRR	Capital Replacement Reserve
GRAP	Generally Recognised Accounting Practices
IDP	Integrated Development Plan
MFMA	Municipal Finance Management Act
MSA	Municipal Systems Act
VAT	Value Added Tax
SDBIP	Service Delivery and Budget Implementation Plan

## **3. LEGISLATIVE FRAME WORK**

The Local Government: Municipal Finance Management Act No 56 of 2003 (hereafter MFMA) section 18 requires that an annual budget may only be funded from:

- (a) Realistically anticipated revenues to be collected;
- (b) Cash backed accumulated funds from previous years' surpluses not committed for other purposes; and
- (c) Borrowed funds, but only for capital projects.

Section 19 of the MFMA also requires spending on a capital project may only be commenced once the funding sources have been considered, are available and have not been committed for other purposes.

Furthermore, Chapter 6 of the MFMA guides on the requirements of obtaining Short Term and Long-Term Debt, Conditions to comply with when applying for Debt, Security, Disclosures and Municipal Guarantees.

The Local Government: Municipal Finance Management Act No 56 of 2003 Municipal Budget and Reporting Regulations, 2009 Section 8 requires that each Municipality should have a Borrowing Policy.

## **4. OBJECTIVE OF POLICY**

The objectives of the policy are as follows:

- To comply with the legislative requirements;
- Manage interest rate and credit risk exposure;
- Maintain debt within specified limits and ensure adequate provision for the repayment of debt;
- To ensure compliance with all Legislation and Council policy governing borrowing of funds.

## **5. BACKGROUND**

The Municipality may only incur debt in terms of the Municipal Finance Management Act, Act No. 56 of 2003. The Municipality may incur two types of debt, namely short-term and long-term debt.

A municipality may incur debt (short-term and long-term debt) only if:

- (a) The debt is denominated in Rand and is not indexed to, or affected by, fluctuations in the value of the Rand against any foreign currency; and
- (b) A council resolution is taken authorising the provision of security if security is to be provided by the municipality.

## **6. Short Term Debt**

The Municipality may incur short-term debt only when necessary to bridge:

Shortfalls within a financial year during which the debt is incurred, in expectation of specific and realistically anticipated income to be received within that financial year; or

Capital needs within a financial year, to be repaid from specific funds to be received from enforceable allocations or long-term debt commitments.

A municipality may incur short-term debt only if:

A resolution of the municipal council, signed by the executive mayor, has approved the debt agreement; and

The AO has signed the agreement or other document, which creates or acknowledges the debt.

The Municipality:

Must pay off short-term debt within a financial year; and

May not renew or refinance its short-term debt.

A short-term debt transaction may be:

Approved individually; or

An agreement with a lender for short-term credit facility to be accesses as and when required, including a line of credit or bank overdraft facility, provide that:

- (a) The credit limit must be specified in the resolution of the Council;
- (b) In terms of agreement, including the credit limit, may be changed only by the resolution of the Council ; and
- (c) If the council approves a credit facility that is limited to emergency use, the AO must notify the Council in writing as soon as practical of the amount, duration and cost of any debt incurred in terms of such a credit facility as well as options for repaying such debt

No lender may willfully extend credit to a municipality for the purpose of renewing or refinancing short-term debt that must be paid off in terms above.

If a lender willfully extends credit to a municipality in contravention of this policy, the municipality is not bound to repay the loan or interest on the loan.

This does not apply if the lender:

Relied in good faith on written representations of the municipality as to the purpose of the borrowing; and

Did not know and had no reason to believe that the borrowing was for the purpose of renewing or refinancing short-term debt.

## **7. Long Term Debt**

The Municipality may incur long-term debt for purposes of

financing its long-term strategic objectives, as outlined in the Constitution of the Republic of South Africa, Act No. 108 of 1996, and Chapter 7 on Local Government, to:

Provide democratic and accountable government for local communities;

Ensure the provision of services to communities in a sustainable manner;

Promote social and economic development;

Promote a safe and healthy environment; and

Encourage the involvement of communities and community organizations in the matters of local government.

## **8. Process**

The process as required by the MFMA is as follows:

### **Section 46**

(2) A municipality may incur long-term debt only if-

- (a) a resolution of the municipal council, signed by the mayor, has approved the debt agreement; and
- (b) the accounting officer has signed the agreement or other document, which creates or acknowledges the debt.

(3) A municipality may incur long-term debt only if the accounting officer of the municipality-

- (a) has, in accordance with section 21A of the Municipal Systems Act-
  - (i) at least 21 days prior to the meeting of the council at which approval for the debt is to be considered, made public an information statement setting out particulars of the proposed debt, including the amount of the proposed debt, the purposes for which the debt is to be incurred and particulars of any security to be provided; and
  - (ii) invited the public, the National Treasury and the relevant provincial treasury to submit written comments or representations to the council in respect of the proposed debt; and

(b) has submitted a copy of the information statement to the municipal council at least 21 days prior to the meeting of the council, together with particulars of-

(i) the essential repayment terms, including the anticipated debt repayment schedule; and

(ii) the anticipated total cost in connection with such debt over the repayment period.

## **9. Capital expenditure**

May include:

Financing costs, including:

- capitalised interest for a reasonable initial period;
- costs associated with security arrangements in accordance with section 48 of the Act;
- discounts and fees in connection with the financing;
- fees for legal, financial, advisory, trustee, credit rating and other services directly connected to the financing; and
- costs connected to the sale or placement of debt, and costs for printing and publication directly connected to the financing.

Costs of professional services directly related to the capital expenditure; and

Such other costs as may be prescribed.

A municipality may borrow money for the purpose of refinancing existing long-term debt, provided that:

The discount rate used in projecting net present value, and any assumptions in connection with the calculations, must be reasonable and in accordance with criteria set out in a framework that may be prescribed.

A municipality's long-term debt must be consistent with its capital budget referred

The existing long-term debt was lawfully incurred;

The refinancing does not extend the term of the debt beyond the useful life of the property, plant or equipment for which the money was originally borrowed;

The net present value of projected future payments (including principal



and interest payments) after refinancing is less than the net present value of projected future payments before refinancing; and

## **10. SECURITY**

A municipality may by resolution of its council provide security for:

Any of its debt obligations; and

Contractual obligations of the municipality undertaken in connection with capital expenditure by the persons on property, plant or equipment to be used by the municipality or such other person for the purpose of achieving the objectives of local government in terms of section 152 of the Constitution.

A municipality may in terms of section 9.1 above provide any appropriate security, including by:

Giving a lien on, or pledging, mortgaging, ceding or otherwise hypothecating, an asset or right, or giving any other form of collateral;

Undertaking to effect payment directly from money or sources that may become available and to authorise the lender or investor direct access to such sources to ensure payment of the secured debt or the performance of the secured obligations, but this form of security may not affect compliance with section 8(2) of the MFMA;

Undertaking to deposit funds with the lender, investor or third party as security;

Agreeing to specific payment mechanisms or procedures to ensure exclusive or dedicated payment to lenders or investors, including revenue intercepts, payments into dedicated accounts or other payment mechanisms or procedures;

Ceding as security any category of revenue or rights to future revenue;

Undertaking to have disputes resolved through mediation, arbitration or other dispute resolution mechanisms;

Undertaking to retain revenues or specific municipal tariffs or other charges, fees or funds at a particular level or at a level sufficient to meet its financial obligations;

Undertaking to make provision in its budgets for the payment of its financial obligations, including capital and interest;

Agreeing to restrictions on debt that the municipality may incur in future until the secured debt is settled or the secured obligations are

met; and

Agreeing to such other arrangements as the municipality may consider necessary and prudent.

A council resolution authorising the provision of security:

Must determine whether the asset or right with respect to which the security is provided, is necessary for providing the minimum level of basic municipal services; and

If so, must indicate the manner in which the availability of the asset or right for the provision of that minimum level of basic municipal services will be protected.

If the resolution has determined that the asset or right is necessary for providing the minimum level of basic municipal services, neither the party to whom the municipal security is provided, nor any successor or assignee of such party, may, in the event of a default by the municipality, deal with the asset or right in a manner that would preclude or impede the continuation of that minimum level of basic municipal services.

A determination in terms of section 9.3 above that an asset or right is not necessary for providing the minimum level of basic municipal services is binding on the municipality until the secured debt has been paid in full or the secured obligations have been performed in full, as the case may be.

## **11. DISCLOSURE**

Any person involved in the borrowing of money by a municipality must, when interacting with a prospective lender or when preparing documentation for consideration by a prospective investor-

Disclose all information in that person's possession or within that person's knowledge that may be material to the decision of that prospective lender or investor; and

Take reasonable care to ensure the accuracy of any information disclosed.

A lender or investor may rely on written representations of the municipality signed by the accounting officer, if the lender or investor did not know and had no reason to believe that those representations.

## **12. MUNICIPAL GUARANTEES**

A municipality may not issue any guarantee for any commitment or debt of any organ of state or person, except on the following condition:

The guarantee must be within limits specified in the municipality's approved budget.

Neither the national nor a provincial government may guarantee the debt of a municipality except to the extent that chapter 8 of the Public Finance Management Act provides for such guarantees.

## **13. APPROVAL**

Once Council approves the loan, the AO has to enter into an agreement with the recommended financial institution on behalf of Council. The Chief Financial Officer must ensure that the terms and conditions are as originally agreed before the Council is committed;

All municipal loan commitments must be recorded in a Loans Register reflecting at a minimum the:

Loan number;

Type of loan;

Financial institution;

Date issued;

Purpose of loan;

Loan period;

Interest rate;

Installments (capital and interest);

Due dates (quarterly / half-yearly / yearly);

Security (if any);

Final redemption date;

Opening balance at the beginning of the financial year;

Amounts received during the financial year;

Capital amounts redeemed during the financial year; and

Closing balance at the end of the financial year.

Sufficient provision must be made in the budget to depreciate assets linked to the loan.

## **14. DOCUMENTS TO BE KEPT ON RECORD**

The following loan documentation and certificates, at a minimum, must always be safeguarded:

- Loan agreements;
- Any applicable security agreements;
- Copy of annual loans register;
- Signed copies of monthly reconciliations;
- Copies of all repayments made;
- Copies of amortization schedules;
- Copies of quarterly National Treasury returns.